STATE OF GEORGIA
2007 DEBT MANAGEMENT PLAN

PREPARED BY:
GEORGIA STATE FINANCING AND INVESTMENT COMMISSION
GOVERNOR'S FINANCE OFFICE
PUBLIC RESOURCES ADVISORY GROUP

FY 2007 – FY 2012

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State of Georgia
2007 Debt Management Plan

Introduction

The State of Georgia (the "State") is one of only seven states currently rated triple-A by all three of the major bond rating agencies: Fitch Ratings, Moody's Investors Service and Standard & Poor's. The preservation of the triple-A rating is dependent on the State's financial position, financial management, moderate debt levels, and strong and responsive leadership. A formal debt management plan is one of the tools useful in preserving the State's superior credit ratings and is helpful in determining the appropriate level of tax-supported debt to meet the State's needs for capital projects. This debt management plan can be used as a tool to help the State make funding decisions to meet its highest priority capital project requirements, while not exceeding debt affordability standards generally deemed important by the debt markets and rating agencies. This report provides information concerning the policies under which the State issues and manages its debt and also presents the debt management plan for fiscal year 2007 through fiscal year 2012.

Overview of Debt Issuance

Georgia State Financing and Investment Division

In November of 1972, the voters of the State of Georgia approved a comprehensive amendment to the Constitution of 1945, which permitted the State to finance its capital outlay needs directly through the issuance of general obligation debt. Prior to the adoption of this amendment, the State's capital outlay needs were met through the issuance by ten separate State authorities of bonds secured by lease rental agreements between the authorities and various State departments and agencies. The provisions of the 1972 amendment were implemented by the General Assembly in 1973 with the enactment of the Georgia State Financing and Investment Commission Act.

The issuance of all general obligation bonds of the State, the proper application of the proceeds of such debt to the purposes for which it is incurred, and the approval of all debt incurred by State authorities are the constitutional responsibilities of the seven-member Georgia State Financing and Investment Commission (the "Commission"). The Commission is comprised of the Governor, President of the Senate, Speaker of the House of Representatives, State Auditor, Attorney General, Director of the Office of Treasury and Fiscal Services, and the Commissioner of Agriculture.

The Commission has two statutory divisions, a Financing and Investment Division and a Construction Division; each division is administered by a Director who reports directly to the Commission. The Commission is empowered to:

- Perform all services relating to the issuance of State debt,

- Invest and account for all proceeds derived from incurring general obligation debt or such other amounts as may be appropriated to the Commission for capital outlay purposes,
- Manage all other State debt issuance,
- Provide financial advisory assistance to State authorities and agencies regarding the issuance of debt, and
- Acquire and construct projects for the benefit of any State agency or to contract with any such agency to acquire or construct projects.

Types of Debt

The Constitution of the State of Georgia provides for the issuance by the State of both general obligation debt and guaranteed revenue debt. The full faith, credit and taxing power of the State is constitutionally pledged to the payment of both of these types of public debt. During the legislative session each year, the General Assembly authorizes new tax-supported debt. The Constitution also provides for the issuance of revenue debt, which may be issued by certain State authorities as authorized by statute. Non-guaranteed revenue debt does not carry the backing of the full faith, credit and taxing power of the State, rather it is supported by revenues generated by the specific projects that are being funded.

General Obligation Debt

Purposes for which General Obligation Debt May be Issued

The Constitution limits the use of general obligation debt to the following purposes: (1) to acquire, construct, develop, extend, enlarge, or improve land, waters, property, highways, buildings, structures, equipment, or facilities of the State, its agencies, departments, institutions, and of certain State authorities, (2) to provide educational facilities for county and independent school systems and for public library facilities for county and independent school systems, counties, municipalities, and boards of trustees of public libraries or boards of trustees of public library systems, and (3) to make loans to counties, municipal corporations, political subdivisions, local authorities, and other local government entities for water or sewerage facilities or systems, or for regional or multi-jurisdictional solid waste recycling or solid waste facilities or systems. For the first two purposes described above, the Constitution limits the term of general obligation debt to 25 years. In practice, in order to match the useful life of the project with the debt issuance, the State typically issues fixed-rate bonds with a 20-year final maturity for major construction and rehabilitation projects, and with a 5-year final maturity for minor repair projects and equipment needs, although in the fiscal year 2007 budget, for the first time, 10-year final maturity debt was included for several projects.

Authorization and Conditions for Issuance of General Obligation Debt

General obligation debt cannot be incurred unless the General Assembly has enacted legislation that states the purposes, in general or specific terms, for which the general obligation bonds are to be issued, specifies the maximum principal amount of each bond issue, and appropriates funds in an amount at least sufficient to cover the highest annual debt service requirements for such issue. Unless repealed by the General Assembly prior to the bonds being issued, appropriations made for debt service do not lapse for any reason and continue in effect until the debt for which the appropriation was authorized has been incurred.

Appropriations for debt service payments on general obligation bonds are required to be made to a special trust fund which is designated as the "State of Georgia General Obligation Debt Sinking Fund." The amount to be appropriated to the sinking fund must be sufficient to pay annual debt service requirements on all general obligation debt. The Constitution mandates that monies in the sinking fund shall be used solely for the retirement of general obligation debt.

As a safeguard against shortages in the sinking fund, a constitutional provision ensures that adequate funds will be available for debt service. Should the General Assembly fail to make an appropriation to the sinking fund, or if, for any reason, the amount in the sinking fund is insufficient to make all required payments, the Constitution then requires that the first revenues received in the general fund of the State be set aside to the extent necessary to cure the deficiency and deposited into the sinking fund.

Guaranteed Revenue Debt

Purposes for which Guaranteed Revenue Debt May be Issued

Guaranteed revenue debt is debt which has been issued by an instrumentality of the State and for which the State has guaranteed the payment of revenue obligations. The Constitution limits the use of guaranteed revenue debt to these purposes:

- toll bridges and roads,
- land-based public transportation facilities or systems,
- water facilities or systems,
- sewage facilities or systems,
- loans to, and loan programs for, citizens of the State for educational purposes, and
- regional or multi-jurisdictional solid waste recycling or solid waste facilities or systems.

The level of guaranteed revenue debt that may be issued to fund water or sewage treatment facilities or systems, and to make loans for educational purposes, is also limited by to the Constitution:

> "No guaranteed revenue debt may be incurred to finance water or sewage treatment facilities or systems when the highest annual debt service requirements for the then current year or any subsequent fiscal year of the State for outstanding or proposed guaranteed revenue debt for water facilities or systems or sewage facilities or systems exceed 1 percent of the total revenue receipts less refunds of the State treasury in the fiscal year immediately preceding the year in which any such debt is to be incurred," and

> "The aggregate amount of guaranteed revenue debt incurred to make loans for educational purposes that may be outstanding at any time shall not exceed $18 million, and the aggregate amount of guaranteed revenue debt incurred to purchase, or lend or deposit against the security of, loans for educational purposes that may be outstanding at any time shall not exceed $72 million."

Authorization and Conditions for Issuance of Guaranteed Revenue Debt

Prior to incurring guaranteed revenue debt, legislation must be enacted authorizing the guarantee of the specific issue of revenue obligations being proposed. The General Assembly must determine conclusively that such obligations will be self-liquidating over the life of the issue, specify the maximum principal amount of such issue, and appropriate an amount at least equal to the highest annual debt service requirements for the bond issue.

Also, a special trust fund designated as the "State of Georgia Guaranteed Revenue Debt Common Reserve Fund" must be established into which appropriations are made at the time guaranteed revenue bonds are issued. This trust fund provides a common reserve for any payments required by virtue of any guarantee made in connection with any issue of guaranteed revenue obligations. Appropriations made for the benefit of guaranteed revenue debt do not lapse for any reason and continue in effect until the debt for which an appropriation was authorized has been incurred. However, such appropriations may be repealed prior to payment having been made into the common reserve fund.

If revenues are not available to meet debt service requirements and payments are then required to be made from the common reserve fund, the reserve fund must be reimbursed from the State's general fund within 10 days after the start of the next fiscal year. It should be noted, however, that the requirement to reimburse the guaranteed revenue debt common reserve fund is subordinate to the obligation to make sinking fund deposits for the benefit of general obligation debt.

While the Constitution requires that the amount to the credit of the common reserve fund at all times be at least equal to the aggregate highest annual debt service requirements on all outstanding guaranteed revenue obligations, it also provides that any excess funding in the common reserve fund at fiscal year's end is transferred to the State's general fund.

Revenue Debt

Purposes for which Revenue Debt May be Issued

Certain State authorities and other State and local entities are authorized by the “Revenue Bond Law” to issue revenue bonds for various revenue-producing undertakings. These include projects related to: transportation (e.g., highways, airports and docks), education (e.g., libraries, dormitories and laboratories), recreation (e.g., parks, stadiums and playgrounds), and utilities such as water treatment plants, solid waste collection systems and sewage disposal plants. Since revenue bonds are not tax-supported and there is no State guarantee, the issuance of such bonds by State authorities does not directly affect the State’s debt burden or debt capacity.

In addition to the general purposes cited above, the enabling legislation of various State authorities authorizes the issuance of revenue bonds for projects specific to that authority's corporate mission. For example, legislation pertaining to the Georgia Housing and Finance Authority permits it to issue revenue bonds for multiple purposes including financing housing facilities, and constructing and equipping health facilities. This debt is secured solely by project revenues and there is no direct or implied guarantee as to debt service payments by the State.

Another example of Authority-issued revenue debt is the State Road and Tollway Authority's planned program of Grant Anticipation Revenue Vehicles ("GARVEEs") Bond issues. The State plans to issue approximately $3 billion of GARVEEs between fiscal year 2007 through fiscal year 2011 as part of the Governor's Fast Forward Congestion Relief Program to help provide congestion relief and improve access to promote economic development. GARVEE bonds will be secured solely by future Federal aid highway reimbursements received by the State and will not have any direct or implied guarantee of the State. Due to rating agency considerations for this debt, however, the impact of such debt is discussed in greater detail further in the report.

During the 2006 General Assembly, Senate Bill 562 was approved by the Legislature and signed into law by the Governor, creating the Georgia Higher Education Facilities Authority ("GHEFA"). The purpose of GHEFA is to issue revenue bonds to finance various self-supporting capital projects for the Board of Regents of the University System of Georgia and the Department of Technical and Adult Education. GHEFA is currently developing policies and procedures and has not yet issued any bonds. GHEFA is authorized under the law to issue up to $300 million in revenue bonds. This debt will be secured solely by the project revenues and there will be no direct or implied guarantee as to debt service payments by the State.

Authorization and Conditions for Issuance of Revenue Debt

Prior to the issuance of revenue bonds, a resolution of the appropriate State Authority's governing body must be adopted authorizing the debt. However, no State Authority (unless specifically exempt) is authorized to issue or incur debt without the express approval of the Commission as outlined in its policy entitled "State Authorities Debt Issuance Approval Policy and Underwriter Selection Procedures." This policy establishes that prior to issuance, any public offering or private placement of Authority debt must secure a minimum bond rating of one letter grade below the State's general obligation bond rating from at least one of the nationally recognized bond rating agencies. This rating may be accomplished on the Authority's own credit, through the purchase of bond insurance, or a bank letter of credit.

Public Universities Foundation Debt

There have been approximately 95 revenue bond debt issues by various local authorities on behalf of foundations associated with public universities. Proceeds of these bond issues are used for various types of projects at the universities, such as housing, research facilities, parking, and other student facilities. In addition to any project revenues that provide security for the debt, the debt is secured by an annually renewable lease between the foundation and the Board of Regents of the University System of Georgia. Each year, as the lease is renewed, the obligation to make the lease payment becomes a legal and binding obligation of the Board of Regents, secured by the entirety of the financial resources of the Board of Regents.

To ensure that it is in compliance with GASB Statement 39, *Determining Whether Certain Organizations are Component Units*, the State has reviewed this foundation debt and has determined that fourteen component units are material enough to include in the State's Comprehensive Annual Financial Report. The three major rating agencies, however, have indicated that for their calculations of debt ratios, if the debt was not issued by the State directly for the university and the State was not providing any backup pledge, then the debt would not be considered direct debt of the State and would not be included in the calculation of net tax supported debt of the State. As any annual lease payments for which it might be necessary to be paid from state appropriated dollars are on a strictly year-to-year basis and thus are subject to appropriations in future budgets and are part of an overall appropriation to the respective university or college and not a separate line item, the foundation debt has not been included in the debt management plan.

Use of Variable Rate Debt

In December 2006, the State issued the total authorized amount of $300 million principal general obligation variable rate debt—its inaugural issue of this type of debt. The interest rate period initially was set as a weekly reset, and three underwriting firms were selected to each underwrite $100 million of bonds and to serve as the remarketing agents. The bonds were rated "triple A" by all of the rating agencies, who each also rated the short-term aspect of the bonds in their highest possible category. The primary benefit to the State of utilizing the variable rate debt method is that the State could lower its cost of funds since variable rates generally are at the lowest point on the yield curve. Depending on interest rate market fluctuations over time, the interest rate savings between variable rates and long term rates can range between 100 and 300 basis points over the life of the bond issue.

Variable rate debt does introduce potential interest rate risk into the debt portfolio. The potential savings, however, should justify the exposure provided the risk is minimized by limiting the amount of the variable rate debt to a maximum of approximately 15% to 20% of total debt (the $300 million of variable rate debt that was issued is less than 4% of the State's outstanding debt) or possibly mitigating the risk by using hedging tools such as interest rate caps, or swaps, where appropriate. At this point in time and given interest rate expectations for the near term, there are no plans for the State to enter into any swap contracts. Also, there is slightly more administrative burden and other ongoing costs associated with variable rate bonds than with fixed rate bonds. The State has established a monitoring program to provide for an ongoing evaluation of the effectiveness of the variable rate bond issue; the State will analyze the cost-effectiveness of available options before issuing additional variable rate bonds.

Management of Bond Funded Projects

Management

Departmental responsibility for completion of projects on a timely schedule following receipt of proceeds, as well as compliance with Federal Tax Code requirements regarding tax-exempt bonds and arbitrage regulations, are being emphasized by the Commission and the State's Chief Financial Officer. The Boards of agencies and authorities receiving bond funds are required to adopt resolutions addressing the major tax-exempt financing requirements, including specific references to the five percent expenditure requirement within six months, eighty-five percent expenditure requirement within three years, and completion of project requirements within five years.

6 Months:		3 Years:		5 Years:
5% Expenditure Requirement	→	85% Expenditure Requirement	→	Completion of Project

Commission staff continuously monitors the spend-down of projects and submits reports to the Commission at critical mileposts. Upon completion of each fiscal year, the Commission is presented with summary reports of disbursement activities and project status. Agencies that have not met spend-down guidelines are required to report on the status of the projects and also to detail the corrective action that they will be implementing to become compliant with respect to the next expenditure requirement.

Project Selection

Early in each fiscal year, Commission staff provides a proposed bond issuance schedule to agencies that have been appropriated bond proceeds. Agencies are asked to request their preferred timing for bond projects; the agency requests are aggregated and a proposed issuance schedule is developed. The proposed issuance schedule is then submitted to the full Commission through the Commission chair. To the maximum extent possible, future State capital projects will be selected for bond issuance using "readiness" criteria (in addition to market and financial considerations) to help ensure that projects are completed on a timely basis and to avoid potential arbitrage complications.

Excess Bond Proceeds

It is the intent of the Commission:

1) to prevent unexpended funds from remaining in completed projects; and
2) to be in compliance with all Federal Tax Code requirements regarding tax-exempt bonds.

To this end, whenever surplus funds are identified, they will be considered for redirection based on a number of factors including original intent of the appropriation, age of the funds, ease of transfer to other qualified projects, etc. An agency desiring to redirect funds from one approved bond project to another project of that agency may request redirection approval.

Debt Affordability

The debt management plan will guide the State in raising sufficient capital necessary to meet the needs of its citizens without jeopardizing its triple-A ratings or the marketability of its bonds. With the State's existing constitutional debt limits, the control of debt issuance by the Commission, and the State's fiscally conservative leadership, the development of prudent debt capacity and affordability guidelines should provide a sound basis for incorporating the issuance of debt into the capital project budgeting process.

Constitutional Debt Limit

Georgia's Constitution limits the amount of debt that may be issued by restricting the level of debt service payments for which the State may be obligated. Specifically, additional general obligation and guaranteed revenue debt may not be incurred whenever the highest aggregate annual debt service requirements for the current year or any subsequent year exceed 10 percent of the prior year's total treasury receipts.

Affordable Debt Capacity

A debt management plan for a five-year period will ensure the availability of funding for necessary capital projects required to meet the State's future needs and is a prudent method of maintaining an acceptable balance between a state's demand for capital and the ability and willingness of the state to repay additional debt. Appropriate targets for debt issuance, based on the State's growth experience and expectations and the financial resources available to meet its debt obligations, provide assurance that additional debt is authorized at prudent levels.

However, there is no specific magic formula for determining the amount of debt that should be issued by the State in any particular year. Many factors must be considered including the State's current and projected program and capital funding needs, revenue projections, fund balances and an overall plan for managing the budget. A debt management plan should take into account the concept of debt affordability in determining the maximum amount of tax-supported debt that a state can afford to issue without jeopardizing its ratings. It is recognized that any model for determining debt affordability will be dependent upon the reasonableness of economic forecasts and the resulting impact on the State's financial resources.

A debt management plan is best utilized in conjunction with a capital budgeting plan for a five-year period. Utilizing a debt management plan in association with a capital budget should provide policy makers with sufficient information to make informed funding decisions regarding the State's ability to finance expected capital improvements.

Rating Agency Considerations

Due to the economic and financial diversity among the 50 states, the credit markets rely heavily on the three major rating agencies to analyze the factors affecting each borrower's ability to meet its debt obligations. Each rating agency assigns credit ratings to debt issues as a means of distinguishing credit quality. Due to the high degree of importance attributed to ratings by investors, each issuer's ratings have a major impact on the marketability of its bonds and the interest rates necessary to generate investor demand in the issuer's debt issues. 'AAA' rated credits are "rewarded" in the market-place by being able to sell their debt at the lowest possible interest rates at any given point in time.

Rating agencies usually base credit decisions on trends relating to an issuer's debt burden, revenue base, fund balances and economic base, as well as a comparison of actual fiscal experience versus budgets over a three- to five-year period.

The overall rating analysis takes into account four primary factors:

- debt burden as measured by ratios,
- quality and strength of a state's economic base,
- fiscal management, and
- financial performance.

Existing tax supported debt burden is an important factor in the determination of a state's credit rating. Credit analysts usually calculate four ratios to use as measurements of debt burden. These four ratios are discussed in detail in a later section of the report.

Credit analysts look for diversity and growth potential of the economic base to generate sufficient revenues to consistently meet program needs and to repay all debt obligations.

In analyzing fiscal management, analysts compare fiscal results with budgets and plans. Such comparisons over time serve as an indicator of the effectiveness of fiscal management. Another criterion of sound fiscal management is the existence of policies and procedures allowing a state to maintain control over debt issuance.

Financial performance is a result of both the quality of a state's management and economic performance. One indicator of financial performance is a state's ability to adjust to meet revenue shortfalls due to unexpected economic downturns. Another gauge of a state's fiscal management and financial performance is its ability to establish and maintain reasonable reserves to cushion the effects of unexpected events, and to rebuild those reserves in a timely manner.

The following are excerpts from credit reports released in December 2006 for the State's Series 2006H General Obligation Variable Rate Demand Bonds:

> *FitchRatings:* "Georgia's superior 'AAA' credit standing is the result of Georgia's longstanding conservative debt management, consistent maintenance of sound finances, and diversified and growing economy…. The debt burden, while growing, remains moderate….The state has instituted a long range debt planning process…. Future debt burden is expected to remain below policy maximums…."

> *Moody's Investors Service:* "Conservative fiscal management, a moderate debt burden, well-funded pensions, and strong reserves are among the reasons for assigning the top credit rating to Georgia's General obligation debt. … Georgia's 'Aaa' general obligation bond rating reflects conservative fiscal management enforced by legal provisions. … The state's debt profile is bolstered by pension funded status that is among the best in the nation."

> *Standard & Poor's:* "The 'AAA' rating … reflects the state's: … History of making difficult decisions to restore fiscal balance, enhanced by strong financial monitoring and oversight; …. The overall debt burden remains … manageable…. …amortization of bonded debt is rapid."

Measuring Debt Burden

When calculating indebtedness, municipal credit analysts use measures that take into account all debt supported or serviced by an issuer's tax revenues. Such debt is known as net tax-supported debt. For the State, net tax-supported debt includes all general obligation debt and guaranteed revenue debt, but does not include any revenue bonds not supported by any direct or implied guarantee of the State. Guaranteed revenue debt is included in the calculation of net tax-supported debt because the revenues which are pledged (e.g. motor fuel taxes for State Road and Tollway Authority debt) for repayment of the debt are included in the State's net revenues. Revenue bonds which are issued by an instrumentality of the State, but which do <u>not</u> carry the State's guarantee, are not included in the calculation of the State's net tax-supported debt. The issuance of these bonds, however, requires prior approval by the

Commission; such approval is granted only after careful scrutiny of the dedicated revenue stream that respectively supports these issues. Also, these revenues are not included in the State's net revenues.

The following table summarizes the State's issued principal amounts as of June 30, 2006.

	Total Original Principal Issued	Outstanding Principal
General Obligation Debt	$15,640,625,000	$6,842,900,000
Guaranteed Revenue Debt	859,640,000	681,760,000
Total State Obligations	$16,500,265,000	$7,524,660,000

Four debt ratios are used to measure debt burden. These debt ratios provide a means to monitor the relative debt burden level for the State over a period of years and also provide a method of comparison of debt burdens among the various states.

Debt per Capita = $\dfrac{\text{Net Tax-Supported Debt}}{\text{State's Population}}$

Debt as Percent of Personal Income = $\dfrac{\text{Net Tax-Supported Debt}}{\text{Total Personal Income of the State}}$

Debt Service as Percent of State Net Revenues = $\dfrac{\text{Annual Debt Service Requirement}}{\text{Net Revenues of the State}}$

Debt as Percent of Full Valuation of Assessed Property = $\dfrac{\text{Net Tax-Supported Debt}}{\text{Full Valuation of All Taxable Property}}$

Credit analysts also examine the rapidity of debt repayment ratio. This measure shows how much of an issuer's total long term debt is retired after 5 and 10 years. Analysts use a standard for this ratio of 25 percent retired in 5 years and 50 percent retired in 10 years as being more favorable than slower amortizations.

Determination of Appropriate Measures for Georgia

Although there is not a formula which can precisely determine the optimal amount of tax-supported debt necessary to meet the State's capital funding needs while assuring that the triple-A debt ratings are preserved, the State has determined that the following three debt ratios provide the best measures of debt burden: (i) debt to personal income, (ii) debt service to state net revenues and (iii) debt per capita. These three ratios can be used to establish a reasonable level of debt that the State could support without undermining its ratings or its ability to meet its other funding needs. (In the State's case, debt as a percent of full valuation is less useful as a measure of debt burden, since the State derives less than 0.5 percent of its revenues from property taxes--historically the debt as a percentage of full valuation of assessed property ratio has been approximately 1%.) Using these three debt ratios in conjunction with a capital plan and maintaining debt levels within an affordable debt capacity should provide reasonable assurance that new debt issuance would not be cause for a reduction in the State's credit ratings.

- **Debt as Percent of Personal Income**: Since a large percentage of State revenues are generated by taxes on individual income and spending, there is a strong correlation between the State's ability to meet its debt obligations and the total personal income of the State's citizens. Therefore, debt as a percent of personal income is a good ratio to use as an indication of debt burden.

- **Debt Service as a Percent of State Net Revenues**: This ratio is a particularly useful method of gauging the debt burden of the State since this ratio indicates the budgetary impact on the State in meeting its annual principal and interest payments on total tax revenue supported debt. (Further, for the State it is a constitutionally required test that the maximum annual debt service cannot exceed 10% of the total revenue receipts, less refunds, of the State treasury in the fiscal year immediately preceding.)

- **Debt per Capita**: This ratio is helpful in assessing the relative magnitude of an issuer's debt position compared to other issuers.

These three ratios have been incorporated into a debt management plan flexible enough to allow the State to closely monitor these and other factors affecting the State's debt position. A critical component in developing the debt management plan is establishing reasonable maximum levels for these three debt ratios. Since the State anticipates issuing approximately $3 billion of GARVEEs during the next five fiscal years, it is prudent to analyze the impact GARVEE debt will have on the State's debt burden. However, since GARVEEs will be secured solely from federal highway reimbursements and will not have a back-up pledge of the full faith and credit of the State or any other State funds, the State also needs to analyze its debt burden without GARVEEs affecting the results. Given the State's capital funding needs and currently manageable debt ratios, the table below presents reasonable maximum levels for the three debt ratios.

Debt Ratio	**Maximum Levels Without GARVEEs**	**Maximum Levels With GARVEEs**
Debt Service to Prior Year Revenues	7.0%	8.0%
Debt to Personal Income	3.5%	4.0%
Debt per Capita	$1,200	$1,500

The debt per capita maximum limits have increased for this 2007 Debt Management Plan by $200. These increases are necessary due to the continued capital needs to help ensure strong economic growth in the State and due to significantly higher construction costs that the State has been experiencing. The maximum levels for the more important ratios of debt to prior year revenues and debt to personal income remain the same because the growth in revenues and personal income will support higher levels of debt.

Trend in State Debt Ratios

Below is a historical comparison of the State's net tax-supported indebtedness and debt ratios.

Historical Debt Ratios							
Year Ended June 30	**Debt Outstanding ($ millions)**	**Debt % of Personal Income**	**$ Debt per Capita**	**Debt % of Estimated Full Value**	**Debt Service % of Prior Year Receipts**	**% of Debt Retired in 5 Years**	**% of Debt Retired in 10 Years**
2002	6,546.5	2.7	765	0.98	5.03	35.5	68.0
2003	6,555.5	2.6	755	0.93	5.47	37.4	70.5
2004	7,266.4	2.8	829	0.98	6.24	36.7	68.6
2005	6,901.9	2.5	775	0.89	6.00	39.4	71.2
2006	7,524.7	2.6	829	0.93	5.66	39.6	69.3

Source: Various Official Statements for State of Georgia General Obligation Bonds

In the period fiscal year 2002 through fiscal year 2006 the net amount of debt outstanding increased by almost 15 percent, resulting in 'Debt per Capita' and 'Debt Service % of Prior Year Receipts' ratios that increase over the same time. The rapidity of debt payment ratio increased slightly over this period and is faster than the standard used by rating analysts of 25 percent of debt retired in 5 years and 50 percent retired in 10 years. As Fitch's report stated, the borrowing in the past few years has increased in response to growth and economic development, but ratios remain very moderate and ***amortization is rapid***. In addition, as Moody's stated, the State's debt burden has been steady relative to other states and relative to in-state personal income.

Comparison of Debt Burden to Other Triple-A States

Georgia is one of only seven states (North Carolina was upgraded by Moody's to Aaa status in mid-January 2007, rejoining the elite group) currently rated triple-A by the three major rating agencies. To validate the reasonableness of its own target debt ratios for the debt management plan, Georgia can compare its ratios to those of its ratings peer group—the triple-A rated states. The following table presents the debt ratios for these states, the group median and average, and the 50-state median and average.

Comparison of Debt Ratios for Triple-A States						
State	Net Tax-Supported Debt Per Capita (1)	Ranking Among 50 States (1)	Net Tax-Supported Debt as a % of 2004 Personal Income (1)	Ranking Among 50 States (1)	FY2006 Debt Service to Prior Year Revenues (2)	Debt to Full Value (3)
Georgia	**$784**	**24**	**2.7%**	**24**	**5.55%**	**0.94%**
Delaware	1,845	7	5.3%	7	5.19	1.15
Maryland	1,169	16	3.0%	20	5.82	1.43
Missouri	496	36	1.6%	36	2.31	0.68
North Carolina	804	23	2.8%	22	4.15	1.22
Utah	707	28	2.7%	23	5.63	0.85
Virginia	601	35	1.7%	35	3.27	1.03
Triple-A Median	$784		2.7%		5.19%	1.03%
Triple-A Average	$915		3.3%		4.56%	1.04%
50-State Median	$754		2.5%		NA	NA
50-State Average	$1,060		3.2%		NA	NA

(1) Compiled from Moody's Investors Service, 2006 State Debt Medians.
(2) Compiled from FY2006 Comprehensive Annual Financial Reports.
(3) Delaware, Maryland, Missouri, and Utah are based on Full Value figures for 2006; Georgia, North Carolina, and Virginia are based on Full Value figures for 2005.

As shown above, Georgia is close to the triple-A median in all of the categories.

Projection of Debt Ratios

The Office of Planning and Budget has projected Treasury Receipts, personal income, population, and assessed and actual valuation of taxable property. These projections are summarized in the table below.

Economic and Demographic Projections								
Fiscal Year	Treasury Receipts ($ millions)	% Growth	Personal Income ($ billions)	% Growth	Population	% Growth	Estimated Full Value ($ billions)	% Growth
2007	19,191.5	4.6	310.4	5.9	9,423,800	1.9	837.0	3.5
2008	20,214.5	5.3	330.5	6.5	9,582,900	1.7	866.3	3.5
2009	21,206.5	4.9	350.0	5.9	9,739,900	1.6	896.6	3.5
2010	22,311.7	5.2	369.6	5.6	9,897,100	1.6	928.0	3.5
2011	23,522.9	5.4	389.6	5.4	10,056,600	1.6	960.5	3.5
2012	24,800.1	5.4	410.4	5.3	10,217,500	1.6	994.1	3.5

At the beginning of fiscal year 2007, there was a total of $1,743,749,000 of authorized, un-issued general obligation debt. (There was no authorized, un-issued guaranteed revenue debt.) Debt issuance projections for 2007 through 2012 are summarized in the table below and include general obligation debt, guaranteed revenue debt, and general obligation debt issued for transportation needs. (The table [000's omitted] incorporates an assumption that $328.115 million of authorized bonds will remain un-issued during fiscal year 2007, and that $40.004 million of un-issued authorized bonds will be de-authorized in the FY08 Appropriations Bill.)

Fiscal Year	**G.O. Debt** (5-Year Final Maturity)	**G.O. Debt** (10-Year Final Maturity)	**Non-Transportation G.O. Debt** (20-Year Final Maturity)	**Transportation G.O. & Guaranteed Revenue Bonds** (20-Year Final Maturity)	**Total Projected Debt Issuance**
2007	$ 80,770	$ 45,000	$ 989,860	$ 300,000	$ 1,415,630
2008	100,000	2,930	935,185	250,000	1,288,115
2009	100,000		800,000	300,000	1,200,000
2010	100,000		800,000	100,000	1,000,000
2011	100,000		800,000	100,000	1,000,000
2012	100,000		800,000	100,000	1,000,000
Total	$ 580,770	$ 47,930	$ 5,125,045	$ 1,150,000	$ 6,903,745

Based on the existing debt, scheduled debt retirement and projected debt issuance, the following table summarizes the projected debt outstanding for each year through fiscal year 2012 and the projected highest annual debt service in each year (000's omitted) for both issued and un-issued (less the $40.004 million referenced in the preceding paragraph) debt.

Fiscal Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Debt at Beginning of Year	$7,524,660	$8,302,710	$8,959,100	$9,472,060	$9,709,870	$9,910,760
G.O. & G.R.B. Issuances	1,415,630	1,288,115	1,200,000	1,000,000	1,000,000	1,000,000
Scheduled Retirements	(637,580)	(631,725)	(687,040)	(762,190)	(799,110)	(791,815)
Debt at End of Year	$8,302,710	$8,959,100	$9,472,060	$9,709,870	$9,910,760	$10,118,945
Highest Annual Debt Service (Issued and Un-issued)	$1,182,180	$1,188,712	$1,274,419	$1,362,068	$1,414,366	$1,420,798

Issuance of the amount of debt projected, using interest rate assumptions of 4.53 percent in 2007 and thereafter for five-year debt, 4.73 percent in 2007 for 10-year debt, and 5.75 percent in 2007 and thereafter for 20-year debt, and using the above economic and demographic assumptions, results in the following debt ratios in future years:

	Triple-A Average	Maximum Plan Level	2007	2008	2009	2010	2011	2012
Debt Service to Prior Year Receipts**	NA*	7.0%	**6.45%**	6.19%	6.30%	6.42%	6.33%	6.03%
Debt Service to Current Year Receipts**	NA*	NA*	**6.16%**	5.88%	6.01%	6.10%	6.01%	5.73%
Debt to Personal Income	3.3%	3.5%	2.67%	**2.71%**	2.71%	2.63%	2.54%	2.47%
Debt per Capita	$915	$1,200	$881	$935	$973	$981	$985	**$990**
Debt to Actual Value	----	na	0.99%	1.03%	**1.06%**	1.05%	1.03%	1.02%

Peak debt ratios shown in bold. Based on debt outstanding at the end of the year.
** Georgia's constitutional debt limit is for both general obligation and guaranteed revenue debt--the highest aggregate annual debt service requirements, including proposed debt, for the current year or any subsequent year, cannot exceed 10 percent of the prior year's total treasury receipts. In addition, 10 percent is the standard used by rating agency analysts as a maximum that should not be exceeded, as a greater percentage could place too heavy a fixed-cost burden on the budget, thereby limiting fiscal flexibility.*
***Debt service includes amounts authorized, but currently unissued.*

Based on the projected growth rates of treasury receipts, population, per capita income, and property valuation, the projected debt issuance results in the ratio of Debt Service to Prior Year Treasury Receipts peaking in 2007 at a high of 6.45 percent, the ratio of Debt Service to Current Year Receipts peaking in 2007 at a high of 6.16 percent, the ratio of Debt to Personal Income peaking in 2008 at 2.71 percent, the ratio of Debt per Capita peaking in 2012 at $990, and the ratio of Debt to Actual Value peaking in 2009 at 1.06 percent. With these projected levels of additional debt issuance and interest rate assumptions, the State will not exceed the maximum levels for any of the debt ratios set above.

Impact of GARVEE Debt

As mentioned previously, the State plans to issue approximately $3 billion of GARVEEs during the next four fiscal years as part of the Governor's Fast Forward Congestion Relief Program to help provide congestion relief and improve access to promote economic development. The GARVEE program began with the issuance of $500 million of GARVEEs in August 2006 -- $450 million issued as fixed rate bonds and $50 million issued in a commercial paper mode. The State structured the GARVEE bonds with a final maturity not to exceed 12 years, and the master trust indenture requires a strict additional bonds test where pledged revenues must be equal to at least 3.0 times the maximum annual debt service on all outstanding GARVEE debt. GARVEE bonds will be secured solely by Federal highway reimbursements and will not carry either a direct or implied guarantee of the State. The GARVEE bonds received Aa2/AA/AA ratings from Moody's Investors Service, Standard & Poor's Ratings Service and FitchRatings, respectively. The following table (000's omitted) summarizes the projected GARVEE debt issuance, debt service, projected obligation authority, and debt service coverage ratios:

	2007	2008	2009	2010	2011	2012
GARVEE Bonds Issued	$500,000	$564,110	$726,205	$710,155	$499,530	$0
Debt Service Requirements	$51,629	$116,063	$202,033	$282,159	$338,527	$338,523
Projected Obligation Authority	$1,323,889	$1,416,561	$1,515,720	$1,546,034	$1,576,955	$1,608,494
Debt Service Coverage Ratios	25.6x	12.2x	7.5x	5.5x	4.7x	4.7x

The three rating agencies currently differ in their treatment of GARVEE debt--both Fitch and Moody's Investors Service include GARVEE debt in their calculations of net tax-supported debt while Standard & Poor's does not include it. Given the anticipated size of the program, and that Moody's Investors Service and Fitch include GARVEE debt in their calculations of tax-supported debt, the State believes it is important to analyze the effect that GARVEE debt will have on the debt ratios. Based on the currently outstanding and projected issuances of debt by the State, the following table (000's omitted) summarizes the total projected amount of debt outstanding all inclusive of general obligation debt, guaranteed revenue debt, and GARVEE debt.

	2007	2008	2009	2010	2011	2012
Debt at Beginning of Year	$7,524,660	$8,802,710	$9,999,425	$11,172,850	$12,006,215	$12,541,760
G.O. & G.R.B. Issuances	1,415,630	1,288,115	1,200,000	1,000,000	1,000,000	1,000,000
GARVEE Issuances	500,000	564,110	726,205	710,155	499,530	0
Scheduled Retirements	(637,580)	(655,510)	(752,780)	(876,790)	(963,985)	(996,275)
Debt at End of Year	$8,802,710	$9,999,425	$11,172,850	$12,006,215	$12,541,760	$12,545,485
Highest Annual Debt Service (Issued and Unissued)	$1,233,809	$1,304,776	$1,476,451	$1,644,227	$1,752,893	$1,759,321

Issuance of the projected amount of GARVEE debt, using interest rate assumptions of 5.0 percent for GARVEE debt, and using the above economic and demographic assumptions, will result in the following debt ratios in future years. For the calculation of the debt service to receipts ratios shown below, projected Federal highway reimbursements have been included in receipts.

	Triple-A Average	Maximum Plan Level	2007	2008	2009	2010	2011	2012
Debt Service to Prior Year Receipts + Federal Reimbursements	NA*	8.0%	6.43%	6.51%	7.00%	7.44%	**7.55%**	7.18%
Debt Service to Current Year Receipts + Federal Reimbursements	NA*	NA	6.15%	6.19%	6.68%	7.08%	**7.17%**	6.83%
Debt to Personal Income	3.3%	4.0%	2.84%	3.03%	3.19%	**3.25%**	3.22%	3.06%
Debt per Capita	$915	$1,500	$934	$1,043	$1,147	$1,213	**$1,247**	$1,228
Debt to Actual Value	----	NA	1.05%	1.15%	1.25%	1.29%	**1.31%**	1.26%

Peak debt ratios shown in bold. Based on debt outstanding at the end of the year.

** Georgia's constitutional debt limit is for both general obligation and guaranteed revenue debt, the highest aggregate annual debt service requirements, including proposed debt, for the current year or any subsequent year, cannot exceed 10 percent of the prior year's total treasury receipts. In addition, 10 percent is the standard used by rating agency analysts as a warning level that should not be exceeded, as a greater percentage could place too heavy a fixed-cost burden on the budget, thereby limiting fiscal flexibility.*

As shown in the table above, including the GARVEE bonds in the debt ratio calculations will increase debt burden. Four of the five ratios peak in fiscal year 2011, while the Debt to Personal Income ratio peaks in fiscal year 2010. However, it should be emphasized that the ratios remain well below the maximums established in the Debt Management Plan for the inclusion of the GARVEE debt. Also, the general economic benefit for the State that should result from the improved transportation facilities that will be financed by the GARVEE bonds should incrementally offset the increased debt burden; although, for these calculations, no adjustments were made to the estimated personal income, state receipts, or actual value of real property.

Summary

The debt management plan will assist in ensuring the availability of funding for necessary capital projects required to meet the State's future needs and maintain the balance between the State's demand for capital and the ability and willingness of the State to repay additional debt. In addition, a debt management plan will assist in the preservation of the State’s triple-A ratings from all three rating agencies by assuring the rating agencies that the State can fund the capital projects necessary to sustain its economic growth. The State has established its maximum levels for the debt ratios and will carefully monitor its debt level and ratios and adjust debt issuances if the ratios consistently exceed the target levels.

The following table summarizes the assumptions and resulting debt ratios, based on the currently projected debt issuance schedule for general obligation bonds, guaranteed revenue bonds and GARVEEs; interest rates of 4.53 percent for five-year general obligation debt, 4.73 percent 10-year debt, and 5.75 percent for 20-year general obligation and guaranteed revenue bonds; and 5.00 percent for GARVEE debt.

State of Georgia
Summary of Projected Debt Ratios
(Without GARVEEs)

	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Debt Outstanding at Beginning of Year	$7,524,660,000	$8,302,710,000	$8,959,100,000	$9,472,060,000	$9,709,870,000	$9,910,760,000
G.O. & GRB Issuances	1,415,630,000	1,288,115,000	1,200,000,000	1,000,000,000	1,000,000,000	1,000,000,000
Net Refunding G.O. Debt	-	-	-	-	-	-
Scheduled Retirements	(637,580,000)	(631,725,000)	(687,040,000)	(762,190,000)	(799,110,000)	(791,815,000)
Debt at End of Year	$8,302,710,000	$8,959,100,000	$9,472,060,000	$9,709,870,000	$9,910,760,000	$10,118,945,000
Unissued Debt at End of Year	$328,115,000					
Highest Annual Debt Service-Issued	$1,148,696,000	$1,188,712,000	$1,274,419,000	$1,362,068,000	$1,414,366,000	$1,420,798,000
Highest Annual Debt Service-Unissued	33,483,000					
Highest Annual Debt Service-Total	$1,182,179,000	$1,188,712,000	$1,274,419,000	$1,362,068,000	$1,414,366,000	$1,420,798,000
Treasury Receipts	$19,191,496,473	$20,214,501,936	$21,206,521,658	$22,311,651,844	$23,522,858,061	$24,800,078,364
Population	9,423,779	9,582,861	9,739,877	9,897,133	10,056,638	10,217,491
Personal Income	$310,408,670,000	$330,485,035,000	$349,952,070,000	$369,627,850,000	$389,592,227,500	$410,400,570,000
Property Valuation	$837,005,902,909	$866,301,109,511	$896,621,648,344	$928,003,406,036	$960,483,525,247	$994,100,448,631
Ratios for 10% Constitutional Limit (based on highest annual debt service for both issued and unissued debt)						
Debt service to Prior Year Receipts	6.45%	6.19%	6.30%	6.42%	6.34%	6.04%
Debt service to Current Year Receipts	6.16%	5.88%	6.01%	6.10%	6.01%	5.73%
Ratios based on outstanding principal at the end of the year (for issued debt only)						
Debt per Capita	$881.04	$934.91	$972.50	$981.08	$985.49	$990.36
Debt to Personal Income	2.67%	2.71%	2.71%	2.63%	2.54%	2.47%
Debt to Estimated Actual Value	0.99%	1.03%	1.06%	1.05%	1.03%	1.02%

(1) FY2006 Treasury Receipts = $18,340,639,099;   FY2006 Federal Reimbursements = $836,314,000

State of Georgia
Summary of Projected Debt Ratios
(Including GARVEEs)

	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Debt Outstanding at Beginning of Year	$7,524,660,000	$8,802,710,000	$9,999,425,000	$11,172,850,000	$12,006,215,000	$12,541,760,000
G.O. & GRB Issuances	1,415,630,000	1,288,115,000	1,200,000,000	1,000,000,000	1,000,000,000	1,000,000,000
Net Refunding G.O. Debt	-	-	-	-	-	-
GARVEE Issuances	500,000,000	564,110,000	726,205,000	710,155,000	499,530,000	-
Scheduled Retirements	(637,580,000)	(655,510,000)	(752,780,000)	(876,790,000)	(963,985,000)	(996,275,000)
Debt at End of Year	$8,802,710,000	$9,999,425,000	$11,172,850,000	$12,006,215,000	$12,541,760,000	$12,545,485,000
Unissued Debt at End of Year	$328,115,000					
Highest Annual Debt Service-Issued	$1,200,325,000	$1,304,776,000	$1,476,451,000	$1,644,227,000	$1,752,893,000	$1,759,321,000
Highest Annual Debt Service-Unissued	33,483,000					
Highest Annual Debt Service-Total	$1,233,808,000	$1,304,776,000	$1,476,451,000	$1,644,227,000	$1,752,893,000	$1,759,321,000
Treasury Receipts	$19,191,496,473	$20,214,501,936	$21,206,521,658	$22,311,651,844	$23,522,585,061	$24,800,078,364
Federal Reimbursements	854,545,000	873,174,000	892,210,000	911,660,000	931,534,000	951,841,000
Total Revenues	$20,046,041,473	$21,087,675,936	$22,098,731,658	$23,223,311,844	$24,454,119,061	$25,751,919,364
Population	9,423,779	9,582,861	9,739,877	9,897,133	10,056,638	10,217,491
Personal Income	$310,408,670,000	$330,485,035,000	$349,952,070,000	$369,627,850,000	$389,592,227,500	$410,400,570,000
Property Valuation	$837,005,902,909	$866,301,109,511	$896,621,648,344	$928,003,406,036	$960,483,525,247	$994,100,448,631
Ratios for 10% Constitutional Limit (based on highest annual debt service for both issued and unissued debt)						
Debt service to Prior Year Receipts Plus Federal Reimbursements *(1)*	6.43%	6.51%	7.00%	7.44%	7.55%	7.19%
Debt service to Current Year Receipts Plus Federal Reimbursements *(1)*	6.15%	6.19%	6.68%	7.08%	7.17%	6.83%
Ratios based on outstanding principal at the end of the year (for issued debt only)						
Debt per Capita	$934.10	$1,043.47	$1,147.12	$1,213.10	$1,247.11	$1,227.84
Debt to Personal Income	2.84%	3.03%	3.19%	3.25%	3.22%	3.06%
Debt to Estimated Actual Value	1.05%	1.15%	1.25%	1.29%	1.31%	1.26%

(1) FY2006 Treasury Receipts = $18,340,639,099; FY2006 Federal Reimbursements = $836,314,000